

Press release

LCQ5: Data on the risks concerning the financial system

Wednesday, May 8, 2013

Following is a question by the Hon Ng Leung-sing and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (May 8):

Question:

In its Global Financial Stability Report published on April 11 this year, the International Monetary Fund (IMF) points out that the bold policies introduced by the central banks of various countries after the financial turmoil in 2008 have been conducive to stabilising their markets in the short run, but the financial risks will increase the longer those policies are in place, and such risks may shift to other non-bank financial realms such as "shadow banks", pension funds and insurance companies. IMF also recommends that those responsible for monitoring the system-wide risks on non-bank financial institutions should improve their data collection. On the other hand, banks, financial institutions other than authorised institutions, funds companies and insurance companies in Hong Kong are currently regulated by different organisations. In this connection, will the Government inform this Council whether it has set up any organisation to collect and analyse all relevant data on the risks concerning the financial system; if it has, of the details of its data analyses and the outcome of its assessment of the composite financial risks at the present stage; if not, the reasons for that?

Reply:

President,

Financial regulators concerned in Hong Kong have introduced a number of measures to manage systemic risks of the market and enhance the resilience of the financial system. They collect and analyse various data on risks to our financial system, such as:

(i) the Hong Kong Monetary Authority collects data on the local money market, foreign exchange market and banking system liquidity and financial risks (including risks caused by the macro environment and potential risks to banking business arising from outside the banking system), and regularly monitors the overseas exposure of our

banking sector as well as the lending activities of Hong Kong branches of foreign banks;

(ii) the Securities and Futures Commission keeps a close watch on the movement of funds and developments in the local securities market, monitoring from various fronts (such as data pertaining to volatility of the stock market and the futures market, and short selling activities). It also monitors and assesses the financial position of securities dealers;

(iii) the Office of Commissioner of Insurance continuously monitors the financial position of insurers under its supervision, including their investment portfolio, asset quality and impact of interest rate changes to their financial position, conducts stress tests on insurers from time to time, and requests insurers to regularly report their solvency ratios in order to ensure the financial soundness, capital adequacy and solvency of the insurers; and

(iv) the Mandatory Provident Fund Schemes Authority regularly inspects the statutory returns submitted by Mandatory Provident Fund (MPF) scheme trustees and MPF schemes, and checks the compliance of MPF investments.

Apart from keeping close contact with the financial institutions under their purview, local regulators also maintain liaison with their overseas counterparts to keep track of the operating and financial situations of foreign financial institutions, in order to identify any risks to Hong Kong's financial markets and strengthen supervision of multinational financial institutions. At the same time, in accordance with the relevant Memoranda of Understanding and through other communication networks at working levels, the regulators frequently exchange information and views on matters of common concern regarding market regulation. The Administration and the regulators have also established effective platforms, including the Financial Stability Committee, to discuss the latest market and regulatory developments, monitor the overall functioning of Hong Kong's financial system, and coordinate cross-market risk management matters.

Notwithstanding the volatility of the global financial markets, Hong Kong's financial markets continue to operate in an orderly manner. Local financial institutions remain resilient. Banks' capital adequacy ratios have been maintaining at levels well above international requirements, and their liquidity ratios at relatively high levels. Our money market and foreign exchange market function normally. Trading, clearing and settlement in the Hong Kong Exchanges and Clearing Limited are orderly conducted. Insurers' average solvency ratios are generally higher than 200 per cent, which are well

above the statutory requirement of 100 per cent. We will continue to monitor the developments in the global financial markets, and act swiftly as and when necessary to ensure the proper functioning of our financial markets.

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